IN A FIX:

The Good Repair of Toronto's Social Housing

Prepared by the Social Housing Services Corporation
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Suggested Actions for Consideration

1. Join SHSC in advocating that the senior levels of government get back into the housing business by cost-sharing capital repairs as well as providing the loan guarantees and mortgage insurance required

2. Contribute to a common view of the scope of the problem by defining capital needs for TCHC and the non-profits using the standards to be developed by the Asset Management Group

3. Require that non-profit providers maximize the benefits from programs like SHSC's Green Light Initiative before drawing down scarce capital reserves

4. Develop strategies to re-vitalize the non-profit sector to ensure that the governance and staffing structures can meet the demands of capital renewal

5. Support the proposal by the Cooperative Housing Federation (Ont) to upload this unique program to be managed by the Co-op Agency that oversees the Federal Co-ops.

6. In reviewing the relative merits of the cash flow trade vs. mortgage re-financing, assess the financial position of each housing provider in terms of the match between capital needs and reserves as well as at mortgage maturation.

7. Endorse SHSC's proposal to assume mortgage renewal responsibilities as a further step in its role to provide the business tools and financial services required for effective operation of social housing

8. Should Council decide to move forward with the LTT, consider dedicating a portion of revenues to meet the unfunded capital needs of social housing.

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"[H]ousing is one of the key systems in any economy and society. It needs to be understood as a system and it always requires a long view - as investments that create places as well as homes are involved. Because it is so central to the wellbeing and spending of all families, it is essential always to see connections to other sectors of our lives and indeed policy. Canada, in contrast to past periods, is now failing, not just marginally but pervasively, in the ways in which it understands housing and what you need to do about it." – Duncan Maclennan, Institute of Governance, University of Ottawa[1]

A. CREATING COMMON CAUSE

Social Housing Services Corporation (SHSC) represents service managers and non-profit housing providers and delivers a variety of housing-related business services.[2] SHSC undertakes research on behalf of these groups to ensure that accurate information is available to those concerned with managing and administering housing for the most disadvantaged.

In February of this year, SHSC released its discussion paper, *Social Housing and the Provincial-Municipal Fiscal Service and Delivery Review: Sustaining a New Partnership*[3], which set out five key principles towards the sustainability of social housing in Ontario. The principles were developed in consultation with Service Managers and housing providers across Ontario and have been forwarded to the fiscal review 'tables' for their consideration:

These principles, designed to re-balance the social housing equation, include:

1) Well-funded, well-managed social housing is integral to stable, healthy communities.

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[1] Keynote Address to SHSC Conference, *Raising the Bar on Performance and Sector Revitalization,* July 5th , 2007.

[2] SHSC was established under the provisions of the Ontario *Social Housing Reform Act, 2000* as an independent corporation representing the interests of its members consisting of municipal Service Managers, Local Housing Corporations, non-profit and co-operative Housing Providers previously administered by the provincial government.

SHSC fulfills the need for a central and essential body to serve as a resource to 47 Service Managers and 1,600 Housing Providers in 455 municipalities and districts across Ontario who collectively manage 250,000 social housing units. SHSC is governed by a fifteen-member Board of Directors, two of whom are appointed by the Province of Ontario, with the balance from its membership including sector representatives from, Barrie, Burlington, Durham, Haldimand, Halton, Hamilton, Ottawa, Parry Sound, Peel, Manitoulin-Sudbury Niagara ,Toronto,and Woodstock.

[3] Social Housing Services Corporation. 2007, *Social Housing and the Provincial-Municipal Fiscal Service and Delivery Review: Sustaining a New Partnership.* http://www.shscorp.ca/(cpd4r145oizna445gaukjte1)/content/Resources/DiscussionResearchPapers/LSRfinalFebruary2007.pdf

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2) Income redistribution programs should not be financed by property taxes. Municipalities should have access to revenue streams that are appropriate to, and that adequately support the level of funding needed for social housing.
3) Housing is a capital investment and requires flexibility in the tools available to ensure benefits for future generations.
4) Local governments are best placed to respond to and deliver social housing programs.
5) Municipalities need clear authority in critical areas where they bear the financial risk. Providers, who are also funders and owners, must be part of the decision-making process.

SHSC is following up this initial report with several backgrounders providing more detailed examination of the issues identified. In particular, a recent report, *Capital Ideas: How to Extend the Health and Safety of Social Housing*, identified a large range of options available to the various levels of government and housing providers to handle the capital funding pressures facing an aging and under-funded housing stock.

Capital Ideas identified several capital financing tools that have the potential to address some of the shortfalls in returning the stock to good condition with minimal impacts on the property tax base. The major conclusion is that none of the tools available to municipalities and housing providers, by themselves or in combination, will suffice. Ultimately, the senior levels of government need to step up with a combination of capital funding and loan guarantees.

The best means of influencing provincial and federal housing policies is through common cause among municipalities and housing providers. Toronto, Ontario's largest municipality, with the largest social housing portfolio, faces substantial cost increases for social housing at a time of severe budget constraints. SHSC seeks a common understanding of the issues facing social housing, as agreement on the facts is the best basis to move to the solutions.

The City of Toronto faces particular pressure due to the size and age of its social housing stock. The "old" City of Toronto was one of the earliest municipalities to build affordable housing for workers and returning war veterans – developing its first projects even prior to involvement by senior levels of government. When the federal and provincial governments created their own housing programs, Toronto was among the most vigorous of participants. Toronto now has about 87,000 social housing units, of which almost 45,000 are former public housing – the oldest housing in the portfolio and in the Province.

As the major immigrant-receiving centre in the Province, Toronto is under constant pressure to serve a population with a high proportion of low-income families and individuals. Social housing remains a critical service for Toronto's continued livability and healthy neighbourhoods.

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Capital investments in social housing make business sense in three ways. First, it is much cheaper to maintain the existing stock than to build new, by a factor of 3 to 5 times. Second, the existing stock serves as the “brand” for new affordable housing. If our existing social housing communities are seen to be attractive and welcoming, the public response to new affordable housing development will be more positive. Third, providing safe and affordable housing for the disadvantaged remains a goal shared by all three levels of government. Yet, we have still to develop the institutional arrangements where the existing stock is supported adequately to meet this task.

Duncan Maclennan, the noted international housing economist, has stated that Canada and Ontario have lost their way in understanding the economic purpose of healthy and safe housing. It is not just about looking after the poor, the aged and the infirm. It is about creating the economic conditions that will enable those disadvantaged by globalization to create the wealth of the nation. He asks, if immigrants cannot find adequate housing, where do we expect the future labour pool to come from? Providing safe and healthy housing in tandem with education, training and employment opportunities makes good economic sense.

B. POLICY CONTEXT: THE DOWNLOADING OF RISKS

In the late 1990’s the two senior levels of government decided to get out of the housing business. First, the federal government devolved much of its social housing to the provinces. Then Ontario passed the federal and provincial load down to the municipalities, even though it was not one of the recommendations of David Crombie’s “Who Does What” committee. Six years later, municipalities and housing providers remain pinned down by the two prongs of burdensome provincial control and woefully-inadequate funding.

Toronto, in particular, understands the consequences of this ill-thought out policy. In 2006, Toronto Council considered *Social Housing in Toronto and Future Risks,* a report from the General Manager, Shelter, Support and Housing Administration (SSHA) which concluded that long-term financial risks, if not addressed, would pressure future operating budgets.

These risks include:

- Lack of an overall cap on municipal costs
- The phase-out of the federal transfer
- Mortgage interest rate exposure
- Imbalance between rental revenues and operating costs
- Projects in Difficulty
- The costs of future capital repairs

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Most of these municipal costs are controlled by the senior levels of government. The provincial government mandated minimum service levels for municipalities, regardless of costs experienced. The federal government, in devolving the federal/provincial portfolio to the Province, established a schedule for stepping back the federal transfer over the next 25 years. What this means is that the City of Toronto will pay more - by 2020, $100 million more.

Likewise, general interest rates in the national economy are set at the federal level, which the City of Toronto sees reflected in its social housing mortgages. The federal government currently has no obligation to offset increased interest rate costs for social housing. City staffs estimate that a one percent increase (100 basis points) in interest rates would increase the City's costs for mortgages renewing in 2007 by $2.6 million. The Bank of Canada outlook is for increased rates in the next six months. It is very difficult to make predictions, particularly about the future; clearly the worry is that we have seen the bottom and rates can only go up.

Other risk factors are shaped by provincial policies. Minimum wage, social assistance, and rent geared-to-income (RGI) rules are determined by provincial regulations. These directly affect the well-being of social housing residents and the resultant operating losses within social housing that must be covered by the municipality.

To take one example, RGI rules for social assistance recipients require that rents be set at absurdly low levels ($85 for a single person receiving OW). If those rents were instead set to the maximum payable to those living in private sector accommodation, municipalities across the Province would benefit from a $175 million increase in revenues, without affecting the well-being of households.[4] If Toronto received 40% (equivalent to the Toronto share of the Ontario population), it would mean an additional $70 million in rental revenue.

That leaves us with the inadequate condition of the physical stock itself, the focus of this report. But at this point, the question may be asked: why does it seem like Toronto is being punished for its previous co-operation with the senior levels of government in putting this public asset in place?

[4] Social assistance households would be no worse off as they would receive an increase in their monthly benefits equivalent to the increase in rent charged.

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C. CONDITIONS IN TORONTO'S SOCIAL HOUSING STOCK

Toronto's social housing is comprised of municipal and non-profit housing, with different ownership structures, capital needs, and financial instruments:

- Municipal housing is owned and operated by the Toronto Community Housing Corporation (TCHC). The majority of units are former public housing, where capital replacements and upgrades are funded from the annual budget, rather than reserves. As a municipal asset, TCHC has greater access to loan capital but lacks the means to pay it back.

- Non-profit housing is owned and operated by community, co-operative, charitable, service and faith organizations. Part of the operating costs is an annual capital contribution to a reserve fund for that rainy day. Non-profits are prohibited by provincial legislation from adding new debt.

Political Science Fiction: Alternative Realities and Repair Needs

In 2000, when the Ontario government introduced the *Social Housing Reform Act*, the Parliamentary Assistant reported the results of two government studies on the public housing portfolio. "The first concluded that the condition of the public housing stock is as good as similar [private] rental stock, if not better in many cases. The second showed that the current budget has sufficient capital dollars to maintain that stock.[5] The two studies referenced have disappeared from the public record and it is impossible to assess their adequacy.

In contrast, the Toronto Community Housing Corporation (TCHC) stated in 2005 that, based on a sample, the immediate capital repair needs was $224 million. Further testing and inflation of construction costs increased this number to $300 million by 2007.

Similarly, the province and Toronto differ about non-profit housing. While the provincial government acknowledges that the non-profit side of social housing was devolved without adequate capital reserves, its estimate for the Province is smaller than what Toronto sees for itself.

In 2005, the Ministry of Municipal Affairs and Housing released the 2002 report by IBI consultants which concluded that annual contributions were under-funded by 15% for provincial units and a whopping 223% for federal ones.[6] Using the figures in the provincial report, the annual shortfall in capital reserves was

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[5] Ontario Hansard, October 16, 2000

[6] IBI Group, "Replacement Reserves in the Non-Profit Housing Portfolio", Revised Draft, July 30, 2002 (available from Ministry of Municipal Affairs and Housing)

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calculated to be at least $23M per year, or roughly, $207 million over the 1999 – 2007 period in which municipalities have had to pay for it. Toronto's own shortfall is an estimated $34 million annually to deal with a total shortfall of $688 million.[7]

What to make of these confusing estimates? Firstly, it is worth noting that the Ontario IBI study report dealt solely with under funded reserves while the Toronto study also considered deferred maintenance requirements on a more broad-based portfolio.

The Ontario IBI report concludes that the "factor having the greatest impact on reserve funds needs, other than the costs of the elements/equipment themselves, is their life span. The impact of funds' return on investment and the size of the initial fund balance are clearly secondary."[8]

The only way out of the morass is to establish a common reality. SHSC is coordinating the Asset Management Group (AMG), comprised of the major sector groups, Co-operative Housing Federation Ontario(CHFOnt), Ontario Non Profit Housing Association (ONPHA), the Service Managers network, Canadian Mortgage and Housing Corporation (CMHC) and the Ministry of Municipal Affairs and Housing (MMAH). With seed funding provided by MMAH, the group will encourage credible and consistent asset management practices amongst the sector. Whatever the standard that the AMG recommends, it will likely result in the need to re-assess current cost estimates of repair.

Sustaining a partnership between the Province and municipalities requires a shared view of the scope of the problem. The work of the AMG to develop a common approach is a critical step to deal with capital shortfalls. The Province would likely insist on a standardized BCA approach as one condition for any provincial grant or loan program. .

TCHC's Capital Plan

Capital repair needs for the older public housing portfolio are demanding, and while, TCHC has used innovative financing techniques to borrow for repair and new development, the need for capital outstrips its ability to find it.

In 2005, Council received TCHC's Capital Needs Assessment identifying an immediate capital repair need of $224M. Total capital spending over the next decade was estimated to be $908 million (including the backlog). TCHC

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[7] IBI Group, "Building Condition Assessment and Analysis of Capital Reserve Funds in Social Housing", September 2004, (available from Social Housing Unit, City of Toronto)

[8] IBI, p.16, provincial report

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estimated that the required annual contribution would have to increase to $53 million from $48 million, on top of the backlog amount.

More recently, TCHC has increased its projected 10 year capital needs to $1.1 billion, of which $300 million is deferred maintenance. Internal funds will cover half, or $550 million, while a $250 million bond issue will cover a portion of the remainder.

Operating efficiencies, notably energy conservation, will cover both interest charges for the bond issue and a sinking fund to repay 70% of the principal of the loan at year 10. The outstanding $75 million balance will be rolled over into new debt at that time that is amortized on the expected life of the asset. In this way, funds are made available for both capital repairs as well as part of Regent Park and Lawrence Heights re-development.

TCHC's capital strategy is commendable. Using the savings from operating efficiencies to float a bond issue for capital work removes some of the pressure from the City's budget.

However, TCHC lacks the resources required to deal with the whole problem. At the end of the decade, $300 million in deferred capital still remains, plus $75 million in additional debt that must be rolled over. As well, in 10 years time, the cutbacks to the federal transfer will have grown significantly. Without some form of provincial or federal contribution, Toronto faces a sizeable liability.

The Non-Profit and Co-operative Sector Picture

Toronto, in its role as service manager, faces a non-profit sector restricted by provincial limits on borrowing, a large number of small providers, a myriad of program conditions, and limited provider capacity.

Toronto's IBI report projected that an astonishing 60% of buildings in the study portfolio would exhaust their reserve funds by 2009. Meanwhile, the City's own social housing reserve funds, funded by interest rate savings, will be depleted in 2008.

Non-profit providers are prohibited by provincial legislation from adding debt through a mortgage or other debt instrument. While the province can override this restriction on a case-by-case basis, the net impact has been to put a damper on providers' thinking about what should be done. Until the shackles are removed and some form of loan assurance provided, non-profits will resist dealing with a problem for which they see no solution.

Add to that the high proportion of providers who operate only one project or small portfolios. Unlike TCHC, where one landlord operates 58,000 units, 243 non-

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profit providers own and operate 28,000 units – 124 on average. As shown in the chart below, almost 60% of providers are smaller than average, and 20% have portfolios of less than 50 units.

Provider Size (by units)	# of providers	% of providers
Under 25	23	9.5
25 – 50	22	9.1
51 -75	38	15.6
76 – 100	34	14.0
101 - 125	28	11.5
126 – 150	35	14.4
151 - 200	29	11.9
201 – 300	21	8.6
More than 300	13	5.3

SOURCE: Social Housing Unit, City of Toronto

This large number of small providers burdens the City of Toronto's ability to administer the housing program in its role as service manager, as well as obstructing providers' organizational capacity to deal with the complexities of capital renewal.

The 243 providers operate under a great range of housing programs developed to meet specific concerns at that time. Provincial regulations[9] specify up to 39 different programs for the various non-profit and cooperative housing providers. This greatly complicates Toronto's job, as staff must consider the particular program conditions under which a given project operates. Providers, too, face additional complexity when multiple projects face differing requirements.

SHSC's own experience suggests that non-profits, both large and small, often lack the governance and staff expertise to handle large scale capital renewal projects.

In the private sector, the efficiencies of scale in property management have led to takeovers among real estate firms (e.g. CapReit swallows ResReit). In other parts of the OECD community, social housing has been restructured through amalgamations, pooled procurement requirements, etc.[10] In Ontario, however, the non-profit housing sector has been largely immune from any pressures to cooperate or consolidate.

At the July 2007 SHSC conference "Raising the Bar on Performance and Sector Revitalization", attended by service managers and housing providers,

[9] O. Reg. 642/00, Schedule 1
[10] "Success and Succession", D. Maclennan

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participants identified an additional challenge. Recruiting staff with the necessary breadth in property management skills is becoming a wide-spread difficulty. Thus, as baby boomers retire, the capacity of the sector will diminish just as the capital renewal challenges increase.

In addition, despite the best efforts of municipal staff, very few non-profit providers made use of SHSC's Green Light Initiative (GLI). GLI provides one-window access to a variety of grant and loan programs to improve energy conservation for electricity, gas and water.[11] Only 20% of available funds have been taken up, most of this by TCHC. Of Toronto's 243 non-profits, only 61, or 25%, have participated - 11 have made use of GLI, while another 50 have an application in process. Even worse, some NPs made use of their (scarce) capital reserve funds rather than the cheaper GLI funds. SHSC can market GLI, but it can't mandate it. More is needed to get the full participation of non-profit staff and Boards.

Capacity issues among Toronto's non-profits need to be part of Toronto's strategy to deal with capital shortfalls. As well, requiring their participation is SHSC's Green Light Initiative or similar programs[12] should be one of the first steps. Mobilizing the sector to make use of available tools is critical.

The Co-op Sector Wants Out!

Co-operative housing comprises 25% of Toronto's non-profit sector, or about 7,000 units. Co-operative housing is different from other non-profit housing, as it is resident-controlled, and subject to differing corporate and member requirements.

The Co-operative Housing Federation of Canada's Ontario Region has proposed that the Province upload the cost and program control for Ontario's devolved housing co-operatives to the provincial level and that the agency administering the federal co-operatives be tasked with the job for the provincial portfolio.[13] A senior housing official estimates that province-wide savings to municipalities would be about $100 million. That means that Toronto, with one-third of the provincial co-op units, should save about $33 million annually[14], plus any future unanticipated costs.

If accepted, the proposal would reduce some of the complexity faced by Toronto and other service managers in administering non-profit housing. The proposal

[11] For more information go to: www.shscorp.ca/shscnew/splash.aspx.
[12] The Province recently announced a $220 million loan/grant program over the next 3 years, through which municipalities can reduce the greenhouse gas emissions through renewal of local infrastructure. For more information, go to http://www.premier.gov.on.ca/news/Product.asp?ProductID=1371

[13] Letter to Hon. John Gerretsen, from Ontario Council, Co-operative Housing Federation of Canada, December 21, 2006
[14] This value could be as high as $50 million, given the pattern of Service Manager supports to co-ops

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would reduce the current financial load and future uncertainties for funding co-op housing, including any capital shortfalls.

SHSC's Proposed Role as Mortgage Administrator

SHSC has proposed transferring the management of mortgages renewals from the Ministry to SHSC, so that the sector is more responsible for decisions about the financing of the asset.

SHSC's administration of mortgages would create opportunities to integrate the full range of financial products and services to meet the needs of our clients during this critical rebuilding period. Whether it is capital reserve fund management, energy conservation, building condition studies, or access to capital for renewal projects, SHSC increasingly serves as the central point of access for service managers and housing providers.

Toronto, of course, as the largest municipality, is better equipped to self-provide many of these services. While SHSC has worked co-operatively with Toronto Community Housing Corporation and with City staff on the Asset Management Group, our primary client is the smaller municipality who look for outside expertise to handle these tasks. Ultimately, common cause results in strategic alliances. Sector management of mortgage renewal is clearly one of these.

Seeking Fairness, Facing Reality

SHSC's position is that the provincial and federal governments need to pay their fair share of the cost of social housing. This would address both the hidden debt passed on by devolution, as well as the fiscal imbalance between the senior levels and municipalities.

A lump sum for capital backlogs would help Service Managers deal with "projects in difficulty" at the same time that longer term capital strategies are being developed. The federal government needs to stop its staged withdrawal of its financial transfer which puts the former public housing stock at great risk. This re-investment would allow municipalities to get on with the job of providing safe housing as part of integrated services for the disadvantaged among us.

However, without a guarantee that the Province will assume any or all responsibility for funding of capital shortfalls, and the complete absence of the federal government from such discussions, the city needs to understand the other choices it has available for a capital repair strategy.

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Some of these involve borrowing, such as what TCHC has done. Other revenue tools may be required. Ultimately, provincial and federal loan guarantees need to be part of the mix.

D. BORROWING CHOICES

The whole point of borrowing to help non-profits maintain livable structures is that municipalities can meet the Province's inflexible service levels in a cost-effective way. But it is a two way street. As much as housing providers need access to capital funds, municipalities need a secure supply of RGI housing into the future. The condition that the provider helps meet the service level requirement needs to be part of the conditions for lending.

There are two main options for borrowing to meet capital needs of non-profits.

Using Non-Profit cash flows to lever capital investment

This option adapts TCHC's "cash flow trade" to the financial structure of non-profits. The basic premise is that income flows to non-profit and co-operative housing providers are guaranteed for as long as there is a mortgage. The certainty of this cash flow serves as the security for borrowing. Private and public sector lending agencies would be approached to determine their interest in providing a line of credit.

InfrastructureOntario (IO), an agency of the Ontario Ministry of Public Infrastructure Renewal, makes infrastructure loans to municipalities and their agencies at rates competitive with what Toronto can get by itself. Currently, IO is mandated to provide funds only to social housing directly owned by Toronto (i.e. TCHC). Private non-profits and co-ops are ineligible at this time. However, there is a precedent for IO to expand its scope. IO was at first restricted to lending to municipal long term care facilities, then, lending was opened up to non-profit long term care facilities.

The cash flow trade allows great flexibility in financing terms (e.g. interest only payments), structuring loan repayments to cash flow availability. As a line of credit, borrowings could be increased quickly to reflect the staging of capital projects.

As non-profits and co-operative housing are not owned by the City of Toronto, the province would need to relax regulatory restrictions under the SHRA and InfrastructureOntario's loan program to make this possible. At SHSC's request, IO staff are briefing the Minister on the request to expand eligibility to non-municipally owned housing providers. Loan guarantees would also minimize the impact on municipal borrowing limits.

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It remains to be seen whether borrowing against the cash flow will be sufficient to deal with the capital shortfalls of non-profits. The good news is that, unlike TCHC, the non-profits also have a mortgage that could be re-financed.

Re-financing non-profit mortgages

Private sector landlords and many homeowners frequently borrow against the equity in their properties when faced with a major capital expenditure. Currently non-profit housing corporations cannot refinance their properties without approval by the Province. However, the Province might consider this route as a means of helping address the shortfall.

Debt refinancing, combining an increase of the principal with an extension of the period of the mortgage, has the potential to realize the necessary funds without increasing the annual municipal subsidy. Subsidy payments, instead, would be stretched out for a longer period of time.

For example, the provincial government could allow providers to increase mortgage principal back to the level it was at devolution, thereby ensuring that the provincial contingent liability was capped at 2000 levels. The federal government, through CMHC, could provide mortgage insurance so that the best possible rates would be realized. As well, the federal transfer would need extension. Allowing the loans to be structured as a line of credit would provide the flexibility required for a multi-stage capital renewal program.

Mortgage re-financing holds promise for the non-profit sector, but it requires both the federal and provincial governments to do their part for implementation to be successful.

It's Pay Back Time

Non-profits could develop several sources through which to pay back a capital loan:

- Operating efficiencies, e.g. through energy conservation and administrative streamlining
- Capital reserve contributions, a portion of which could be re-directed from the annual contribution to an annual interest payment
- Financial flexibility gained at mortgage pay down

Achieving operating efficiencies in a diffuse sector where it is up local Boards and staff to find the savings will require municipal support - not a small task. In some cases, requiring use of pooled services would reduce the cost and

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uncertainty of property management and capital renewal. In other cases, it may suggest that small providers need to merge to achieve a right-sized organization.

The City of Toronto would benefit as it would receive 50% of any cost savings. But it may wish to waive its share of savings, in order to maximize the loan supported by those savings.

The Province has a role. Currently, the *Social Housing Reform Act* requires that the capital reserve contribution must be made in whole. Allowing providers to re-direct a portion of the annual contribution to repay a capital loan would demonstrate provincial willingness to provide the flexibility required to handle the problem.

Finally, many providers will experience greater financial freedom with the pay down of their mortgage and end of their operating agreements. The pot of gold at the end of the rainbow would then be available to pay down any capital loans outstanding.

However, not all providers will be in such a fortunate position. For some, the subsidies that end with the mortgage are greater than the cost of the mortgage. That means that they would have less ability to continue loan repayments after the mortgage term than they would before. Projects with a high proportion of RGI residents, those in weak or declining markets, may be a greater risk. The post-mortgage position needs to be part of any financial assessment.

E. NEW REVENUE TOOLS

In the event that borrowing options are unable to provide the total solution, Council may need to consider municipal tax revenues. Municipal finance officials are understandably reluctant to ear-mark revenues for specific purposes, as that reduces flexibility to deal with future shifts in priorities. Nonetheless, at least one of the new revenue tools under consideration can be linked to the need to fund capital repairs in social housing.

Redevelopment Creates Pressures, Not Offsets

The TCHC experience in re-developing Regent Park and Lawrence Heights demonstrates that redevelopment does not increase the cash flow available for capital repairs in other projects. In fact, the reverse is true. TCHC is covering some of its development costs through loans paid by energy savings and operating efficiencies in other parts of the portfolio.

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Intensification may hold more promise to yield capital dollars, but given the built-out nature of most social housing sites, it is of limited applicability. Nonetheless, where a provider has "surplus" land, it can be sold for new development and the proceeds made available for capital upgrades on the original building.

Tax Increment Financing

The province has given municipalities use of Tax Increment Financing (TIF) for the clean up of "Brownfield" sites where previous land uses created contaminated sites.

The municipality provides an incentive in the form of a reduced property tax rate during the period of rehabilitation and development. Once the land is re-developed, it becomes more valuable and subsequently is re-assessed at its appropriate market value. This is generally significantly higher than its value in its contaminated state and so the property tax revenue from the site increases substantially. Currently, TIFs do not recognize social housing redevelopment as a possible activity.

However, if the rehabilitation of a social housing site was part of an overall neighbourhood renewal initiative, municipalities would realize an increase in property taxes that could be used to finance the rehabilitation/re-development.

One possible drawback is that using TIFs to pay for social housing loads redevelopment costs on the property tax of what may be a lower income community, rather than the broader tax base.

Sale/lease back

This is an option used by the private sector, particularly when their key business activity is not the management and maintenance of real estate. In the initial agreement, the purchaser and vendor agree to a rental rate and periodic escalators in the rents. The new owner becomes responsible for the maintenance of the building, including making the necessary capital investments to keep the building in good condition.

The capital freed up by this transaction could be invested to offset the additional rental cost, or it could be used to fund the rehabilitation of projects not sold. There is no magic to this solution – the costs of rehabilitation and a profit margin are paid over time through increased lease costs. The key question is whether it would be cheaper to simply borrow the capital funds needed and retain ownership of the asset.

Property Tax Exemption

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Currently, land "owned, used and occupied by … any charitable, non-profit philanthropic corporation organized for the relief of the poor if the corporation is supported by public funds" is exempt from property taxes (paragraph 12 of s.3(1) of the *Assessment Act*)

The Municipal Property Assessment Corporation (MPAC) has resisted any efforts to expand use of this provision. Broadening the terms of this exemption to non-profit housing providers would provide financial relief that could be used to strengthen the capital reserves of social housing providers.

The impact on a single-tier municipality, such as Toronto, would be neutral or modest, as reduced property taxes are offset by the smaller size of municipal subsidies required. The provincial government would realize most of the financial pressure as the educational component of property taxes would no longer be applicable. For that reason, the Province may not endorse such a change to its legislation.

While generally favourable to non-profit providers, the benefit is not targeted to the actual need for additional capital investments. The Province may prefer other measures that more directly reflect the capital shortfall.

Landing the Land Transfer Tax

Toronto's LTT has experienced a bumpy ride, precisely because it is perceived as a tax increase that disappears into overall municipal spending. From a municipal finance perspective, taxes are taxes and should not be ear-marked for specific purposes.

User fees, on the other hand, are less resented as they are seen as a legitimate price that someone pays to enjoy a service or benefit provided by the municipality. Over the past decade, Toronto has enjoyed buoyant residential, commercial and industrial real estate markets. Some of this real estate prosperity reflects the attractiveness of the City as a place to make investments. Arguably, Toronto's investment climate reflects public expenditures made in public transit, waste management, crime prevention, public health and general level of community safety, including social housing. By linking the LTT to municipal infrastructure investments, in particular, social housing, the benefits are more visible.

Increasing polarization of income and wealth has resulted in home prices rising well beyond that afforded by most working families. Using the proceeds of the LTT to improve conditions in social housing is a fair and just mechanism to ensure housing adequacy for those disadvantaged by wealth polarization and priced out of the booming real estate market. In creating healthy life conditions for the future labour force, we build the basis for future wealth creation. The LTT is a form of wealth tax, or, alternatively, a user fee for those rich enough to buy a

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home or other property in Toronto. Should Council decide to have another look at new revenue sources, at least some of the LTT should be ear-marked for social housing.

F. MAJOR FINDING: PLANNING, NOT PANIC

Heavy lifting is required to get social housing into a state of good repair. This paper has identified that Toronto's shortfall in capital spending, while serious, can be managed through a mix of new financial and revenue tools, sector efficiencies and revitalization, and a renewed commitment by senior levels of government to the social asset they were so instrumental in creating. Among the major findings:

- of the social housing risks passed down by the senior levels of government, municipalities are best equipped to deal with capital management strategies
- developing a shared view of the scope of the capital needs problem underlies all subsequent planning – the work of the Asset Management Group is critical to buy-in by the provincial and federal governments
- the cash flow trade financing tool used by TCHC shows how effective management of the housing portfolio can realize savings to pay for at least part of the shortfall
- TCHC's capital strategy is treading water - elimination of the capital backlog will require additional investment from new sources, particularly as cutbacks to the federal subsidy dig deeper.
- non-profit and co-operative housing face significant organizational and financial obstacles that limit their capacity to deal with capital shortfalls
- the proposal by the Co-operative Housing Federation (Ontario Region) to upload its housing to the province and a separate agency promises $50 million in immediate relief as well as long-term savings
- SHSC is well-positioned to integrate the range of financial planning required for capital renewal with a sector-led mortgage administration function
- re-financing non-profit mortgages to cover capital needs, if paired by lengthened amortization periods, could have minimal impacts on property taxes
- Borrowing through a cash flow trade or refinancing mortgages requires senior government endorsement. Provincial loan guarantees would minimize the impact on municipal borrowing limits, while federal mortgage insurance reduces the cost of borrowing.
- the ability of providers to pay back any capital loans depends not just on the match between capital reserves and requirements, but also their financial position at mortgage pay down.
- of the other revenue tools available, the Land Transfer Tax has the most direct link to social housing, as real estate investment is supported by strong social infrastructure.

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- the senior levels of government must get back into the housing business, as assuring the good repair of the existing housing stock is beyond municipal funding tools.

G. FIXING THE FIX WE'RE IN

The Fiscal Service and Delivery Review creates the opportunity to re-found social housing on a sustainable basis. Only by offering practical solutions, can Toronto, other municipalities, and housing providers hope to engage the senior levels of government in a common cause.

All levels of government share the good repair of social housing as a fundamental objective, as it supports healthy communities and indeed a prosperous nation. However, current institutional relationships are unequal to the task. Municipalities and housing providers, orphaned by the devolution of social housing, lack adequate means to pay all costs. The following suggestions provide a road map to get back home.

1. Join SHSC in advocating that the senior levels of government get back into the housing business by cost-sharing capital repairs as well as providing the loan guarantees and mortgage insurance required

2. Contribute to a common view of the scope of the problem by defining capital needs for TCHC and the non-profits using the standards to be developed by the Asset Management Group

3. Require that non-profit providers maximize the benefits from programs like SHSC's Green Light Initiative before drawing down scarce capital reserves

4. Develop strategies to re-vitalize the non-profit sector to ensure that the governance and staffing structures can meet the demands of capital renewal

5. Support the proposal by the Cooperative Housing Federation (Ont) to upload this unique program to be managed by the Co-op Agency that oversees the Federal Co-ops.

6. In reviewing the relative merits of the cash flow trade vs. mortgage re-financing, assess the financial position of each housing provider in terms of the match between capital needs and reserves as well as at mortgage maturation.

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7. Endorse SHSC's proposal to assume mortgage renewal responsibilities as a further step in its role to provide the business tools and financial services required for effective operation of social housing

8. Should Council decide to move forward with the LTT, consider dedicating a portion of revenues to meet the unfunded capital needs of social housing.

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